Torrent Pharmaceuticals Ltd
India sales stays ahead of market trend

<table>
<thead>
<tr>
<th>Pharmaceuticals</th>
<th>Sharekhan code: TORNTPHARM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reco/View: Buy</td>
<td>CMP: Rs. 1,552</td>
</tr>
<tr>
<td></td>
<td>Price Target: Rs. 1,788</td>
</tr>
</tbody>
</table>

Summary

- Torrent Pharma’s average sales growth stood at 13.5% (for January and February), beating the Indian Pharma Market’s (IPM’s) 11.3% growth for the same period. On a MAT basis, sales grew by 15.5% for February 2023 versus the IPM’s 8.2%.
- Torrent Pharma’s IPM-based average revenue growth run rate for Q4FY23E is in line with our estimate of 13.0%. We, hence, maintain our overall revenue and earnings growth estimates at 12.3% and 19.5% CAGR over FY2022-FY2025E, respectively.
- Key markets such as India and Brazil will continue to support revenue growth while Curatio’s acquisition will aid margin expansion.
- Stock trades at 31.3x/24.5x its FY24E/FY25E EPS estimates. We maintain a Buy on Torrent Pharma with an unchanged PT of Rs. 1,788.

Torrent Pharma’s average domestic sales growth (13.5%) has beat market (Indian Pharma Market – IPM’s) average growth in January and February 2023 (11.3%), as per AIOCD. On a Moving Annual Total (MAT) basis, Torrent’s sales grew by 15.5% for February 2023, versus the IPM’s 8.2%. The beat is likely to be driven by new product launches, performance of its top brands, strong growth in newly acquired Curatio portfolio, recent expansion of its field force and higher productivity. The company is the eighth-largest IPM player and has historically grown above IPM. It ranks fifth for chronic and sub-chronic therapy areas of cardiovascular disease (CVD), Vitamins and Minerals (VMS), Central Nervous System (CNS), and gastroenterology (GI) in India. Its 19 brands feature in top 500 pharma brands in India as of Q3FY23 vs. 17 in FY22 while 13 brands have revenue of over Rs. 100 crore each versus 11 such brands in FY22. Growth is expected to be aided also by the pricing growth, which the company has guided to remain consistent over next few quarters. The average pricing growth of 6.3% YoY every month (over the past several months under observation) for the industry corroborate with it.

- Strong growth in Torrent Pharma India sales in January-February 2023 (Q4FY23E): As per AIOCD’s data, Torrent Pharma’s average sales growth for January and February 2023 (13.5%) has been above market average growth for the same months (11.3%), indicating the likely growth run rate for Q4FY23E, for the company.
- India and Brazil to support overall growth: The company draws large share of its revenue from India and Brazil wherein it generates higher gross margins. In India, the company is already performing on the back of its strong brands. In Brazil, the company is expected to grow on the back of increase in MR strengths for CNS, generics segment growing and new product launches.
- The company expects strong pricing growth: IPM’s growth has been driven consistently by an average pricing growth of 6.3% y-o-y every month for the industry. At the same time, Torrent Pharma expects 7-8% price rise over the next few quarters.

Our Call

Torrent Pharma’s domestic average sales growth for the months of January and February (13.5%) has been above average market (Indian Pharma Market – IPM’s) growth (11.3%) for the same months, indicative of run rate for the company for Q4FY23E. On a moving annual total (MAT) basis, the company’s sales growth was at 15.5% for Feb 2023 vs. 8.2% for IPM. The sales growth beat over IPM is likely to be driven by new product launches, performance of its top brands, strong growth in its newly acquired Curatio’s portfolio, recent expansion of its field force and increase in their productivity. Torrent Pharma’s Q4FY23E growth run rate (as per AIOCD) as indicated by Jan and Feb 23’s average IPM sales growth, is in line with our estimate. We, hence, maintain our overall revenue and earnings growth estimates at 12.3% and 19.5% CAGR, respectively over FY2022-FY2025E. At CMP, the stock trades at 31.3x/24.5x its FY24E/FY25E EPS, respectively. We maintain Buy on Torrent Pharma with an unchanged PT of Rs. 1,788.

Key Risks

Delays in the resolution of USFDA issues at its plants and heightened competitive pressures in the US.

Valuation (Consolidated) Rs cr

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY2021</th>
<th>FY2022</th>
<th>FY2023E</th>
<th>FY2024E</th>
<th>FY2025E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>8,005.0</td>
<td>8,508.0</td>
<td>9,338.2</td>
<td>10,657.3</td>
<td>12,042.9</td>
</tr>
<tr>
<td>EBITDA Margin (%)</td>
<td>31.0</td>
<td>28.6</td>
<td>29.5</td>
<td>31.5</td>
<td>32.5</td>
</tr>
<tr>
<td>Adj. PAT</td>
<td>1252.0</td>
<td>1262.0</td>
<td>1231.2</td>
<td>1687.2</td>
<td>2155.8</td>
</tr>
<tr>
<td>Adj. EPS (Rs)</td>
<td>36.8</td>
<td>37.1</td>
<td>36.2</td>
<td>49.6</td>
<td>63.4</td>
</tr>
<tr>
<td>PER (x)</td>
<td>42.1</td>
<td>41.8</td>
<td>42.9</td>
<td>31.3</td>
<td>24.5</td>
</tr>
<tr>
<td>EV/EBITDA (x)</td>
<td>23.1</td>
<td>23.2</td>
<td>20.7</td>
<td>16.6</td>
<td>13.8</td>
</tr>
<tr>
<td>ROCE (%)</td>
<td>16.9</td>
<td>18.4</td>
<td>20.6</td>
<td>24.9</td>
<td>26.6</td>
</tr>
<tr>
<td>RONW (%)</td>
<td>23.1</td>
<td>21.1</td>
<td>19.4</td>
<td>23.4</td>
<td>25.2</td>
</tr>
<tr>
<td>RONW (%)</td>
<td>23.1</td>
<td>21.1</td>
<td>19.4</td>
<td>23.4</td>
<td>25.2</td>
</tr>
</tbody>
</table>

Source: Company; Sharekhan estimates
Strong growth observed in Torrent Pharma India sales in January – February 2023 (Q4FY23E)

As per the All-Indian Origin Chemists & Distributors Ltd (AIOCD’s) data, Torrent Pharma’s India sales growth (13.5%) beat the IPM’s average growth of 11.3% for January and February. The company’s India sales growth was 10.9% and 16.1% y-o-y for the months of January and February 2023, vis-à-vis, IPM growth of 2.3% and 20.3% YoY, for each of those months, respectively. This indicates resilience of the company’s brands. The company is the eighth-largest IPM player and has historically grown above IPM. It has 5th rank in chronic and sub-chronic therapy areas of cardiovascular disease (CVD), Vitamins and Minerals (VMS), Central Nervous System (CNS), and Gastroenterology (GI). Its 19 brands feature in top 500 pharma brands in India as of Q3FY23 vs. 17 in FY22 while 13 brands have revenue of over Rs. 100 crore each versus 11 such brands in FY22.

India and Brazil to support overall growth

The company draws bulk of its revenue from India (51% of revenue) and Brazil (10% of revenue) wherein it generates higher gross margins. This is because the company generates nearly 70% of revenues from high-value branded generics products across the markets. In India, the company is already performing led by strong brands. In Brazil the company expects to grow on the back of increase in Medical Representatives (MR) strengths for CNS, generics segment growing and new product launches. The company plans to launch 4-6 products in Brazil market, every year, over short – medium term vs. 22 existing products being marketed there, currently. The US market (12% of revenue) continues to grow as well despite two of its facilities (Indrad-19 existing products and Dahej - 16 existing products) being under OAI status as the base business continues to grow on the back of 55 existing products marketed there.

### Torrent India’s sales growth vs. IPM growth

![Graph showing Torrent India’s sales growth vs. IPM growth]

**Source:** AIOCD and Sharekhan Research

The company expects strong pricing growth

The IPM’s (industry) growth has been driven consistently by an average pricing growth of 6.3% y-o-y every month over the past several months under observation. Torrent Pharma expects 7-8% price rise over the next few months as the product launches over the last 24 months, including Sitagliptin for diabetes and Pregabalin in CNS segments, wherein they hold large market share, should enable them to drive higher pricing and revenue growth over short – medium term.
**Strong cost synergies from Curatio to aid earnings growth**

The newly acquired Curatio India Pvt Ltd. should help it realise cost synergies from the closure of overlapping distribution and warehouse setups. The company expects the margin enhancement of 300-400 bps achieved in Q3FY23 to sustain in the coming quarters on the back of cost synergies from Curatio’s integration.

**Pricing growth in IPM**

![Pricing growth in IPM](image)

*Source: AIOCD and Sharekhan Research*

**Top brands of Torrent Pharma in India**

![Top brands of Torrent Pharma in India](image)

*Source: Sharekhan Research*
Financials in charts

Sales Trends (Rs Cr)

- FY2020: 7,781
- FY2021: 8,005
- FY2022: 8,508
- FY2023: 9,338
- FY2024E: 10,657
- FY2025E: 12,043

Source: Company, Sharekhan Research

Operating Profit - PAT Trends

- FY2020: 2,012
- FY2021: 2,485
- FY2022: 2,431
- FY2023: 2,755
- FY2024E: 3,357
- FY2025E: 3,914

Source: Company, Sharekhan Research

Margin Trends

- OPM (%): (27.3, 31.0, 28.6, 29.5, 31.5, 32.5)
- PATM (%): (13.2, 15.6, 14.8, 13.2, 15.8, 17.9)

Source: Company, Sharekhan Research

Improving Leverage (D:E)

- FY2020: 1.27
- FY2021: 0.87
- FY2022: 0.67
- FY2023: 0.55
- FY2024E: 0.47
- FY2025E: 0.39

Source: Company, Sharekhan Research

RoCE Trend (%)

- FY2020: 14.67
- FY2021: 16.93
- FY2022: 18.36
- FY2023: 20.64
- FY2024E: 24.87
- FY2025E: 26.60

Source: Company, Sharekhan Research

RoE Trends (%)

- FY2021: 23.12
- FY2022: 21.10
- FY2023: 19.37
- FY2024E: 23.36
- FY2025E: 25.21

Source: Company, Sharekhan Research
Outlook and Valuation

- **Sector View – Regulatory concerns and pricing erosion prove a hurdle over short – medium term**
  
  Over the years, Indian pharmaceutical companies have established themselves as dependable source for global pharma companies. The confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. However, ongoing USFDA plant inspections and a few companies being issued Form 483 with observations points at apparent regulatory concerns. We believe that in the near term, based on the headwinds that may drag the performance, especially in the API and CDMO space and for large pharma players seeing USFDA OAI or WL status on their facilities, we have a Neutral view of the sector.

- **Company Outlook – Earnings prospects improve with strong outlook on India and Brazil**
  
  Torrent is a leading pharmaceutical company operating in emerging as well as developed markets. The company has a higher exposure to chronic therapies. Moreover, the company derives a substantial portion of its sales from India, followed by the US, Germany, and Brazil, which collectively form the core markets. The company has been outperforming in India as well as Brazil and the management expects to sustain traction going ahead as well and sees these geographies as key growth drivers. Moreover, the German business is expected to gain traction and stage strong growth ahead, backed by growth in the base business and product launches. The company’s US business has been under pressure as two of its plants, which cater to US markets – Dahej and Indrad – are under the USFDA’s scanner with OAI/WL classification. A timely and successful resolution of these USFDA observations at its two plants is critical and could result in earnings upgrades upon resolution.

- **Valuation – Maintain Buy with an unchanged PT of Rs. 1,788**
  
  Torrent Pharma’s domestic average sales growth for the months of January and February (13.5%) has been above average market (Indian Pharma Market – IPM) growth (11.3%) for the same months, indicative of run rate for the company for Q4FY23E. On a moving annual total (MAT) basis, the company’s sales growth was at 15.5% for Feb 2023 vs. 8.2% for IPM. The sales growth beat over IPM is likely to be driven by new product launches, performance of its top brands, strong growth in its newly acquired Curatio’s portfolio, recent expansion of its field force and increase in their productivity. Torrent Pharma’s Q4FY23E growth run rate (as per AIOCD) as indicated by Jan and Feb 23’s average IPM sales growth, is in line with our estimate. We, hence, maintain our overall revenue and earnings growth estimates at 12.3% and 19.5% CAGR, respectively over FY2022-FY2025E. At CMP, the stock trades at 31.3x/24.5x its FY24E/FY25E EPS, respectively. We maintain Buy on Torrent Pharma with an unchanged PT of Rs. 1,788.

### One-year forward P/E (x) band

![P/E (x) Band](image)

Source: Sharekhan Research

### Peer valuation

<table>
<thead>
<tr>
<th>Companies</th>
<th>CMP (Rs / Share)</th>
<th>O/S Shares (Cr)</th>
<th>MCAP (Rs Cr)</th>
<th>P/E (x) FY23E</th>
<th>P/E (x) FY24E</th>
<th>P/E (x) FY25E</th>
<th>EV/EBIDTA (x) FY23E</th>
<th>EV/EBIDTA (x) FY24E</th>
<th>EV/EBIDTA (x) FY25E</th>
<th>RoE (%) FY23E</th>
<th>RoE (%) FY24E</th>
<th>RoE (%) FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Torrent Pharma</td>
<td>1,552.0</td>
<td>33.84</td>
<td>52,527</td>
<td>42.9</td>
<td>31.3</td>
<td>24.5</td>
<td>16.6</td>
<td>13.8</td>
<td>19.4</td>
<td>23.4</td>
<td>25.2</td>
<td></td>
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<tr>
<td>Cipla</td>
<td>883.5</td>
<td>80.69</td>
<td>71,286</td>
<td>23.9</td>
<td>19.0</td>
<td>15.9</td>
<td>12.0</td>
<td>10.0</td>
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<td>14.8</td>
<td>15.2</td>
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<tr>
<td>Zydus Lifescience</td>
<td>479.7</td>
<td>101.20</td>
<td>48,541</td>
<td>20.7</td>
<td>18.6</td>
<td>16.8</td>
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<td>11.7</td>
<td>10.1</td>
<td>12.4</td>
<td>12.3</td>
<td>12.2</td>
</tr>
</tbody>
</table>

Source: Company, Sharekhan estimates
**About company**

Torrent, the flagship company of Torrent Group, was incorporated in 1972. Torrent has a strong international presence across 40 countries with operations in regulated and emerging markets such as the U.S., Europe, Brazil, and RoW. The company operates through its wholly owned subsidiaries spread across 12 nations with major setups in Brazil, Germany, and the US. The company is also one of the leading pharmaceutical companies present in India as a dominant player in the therapeutic areas of cardiovascular (CV) and central nervous system (CNS). The company also has a significant presence in gastro-intestinal, diabetology, anti-infectives, and pain management segments.

**Investment theme**

Torrent continues to focus on a branded business mix from India and Brazil, which balances well for sustainable growth in a challenging global environment for the pharma sector. U.S. business is also stable. Two manufacturing plants of Torrent are reeling under regulatory issues with a warning letter being issued by the USFDA. Management expects the issues to be resolved; and till such time, approvals from these plants would be withheld. Torrent has submitted its responses to the regulator and is awaiting a revert on this. Timely and successful resolution of USFDA issues is critical from a growth perspective.

**Key Risks**

- Slowdown in ANDA approvals and USFDA-related regulatory risks could hurt business prospects.
- Delay in product launches in Brazil, Germany, and the U.S. could restrict growth in these key geographies.
- Currency fluctuation poses a risk to export businesses.

**Additional Data**

**Key management personnel**

| Mr. Sudhir Mehta | Chairman (Emeritus) |
| Mr. Samir Mehta | Executive Chairman |
| Mr. Sudhir Menon | CFO |

*Source: Company Website*

**Top 10 shareholders**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Holder Name</th>
<th>Holding (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mirae Asset Global Investments</td>
<td>1.59</td>
</tr>
<tr>
<td>2</td>
<td>ICICI Prudential Life Insurance</td>
<td>1.24</td>
</tr>
<tr>
<td>3</td>
<td>Kotak Mahindra AMC</td>
<td>1.21</td>
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<td>4</td>
<td>Vanguard Group Inc.</td>
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<td>5</td>
<td>BlackRock Inc.</td>
<td>0.95</td>
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<td>6</td>
<td>FMR LLC</td>
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<td>7</td>
<td>Nippon Life India AMC</td>
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<tr>
<td>8</td>
<td>UTI Asset Management</td>
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<tr>
<td>9</td>
<td>Norges Bank</td>
<td>0.71</td>
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<tr>
<td>10</td>
<td>ICICI Prudential AMC</td>
<td>0.63</td>
</tr>
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</table>

*Source: Bloomberg*

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**Understanding the Sharekhan 3R Matrix**

<table>
<thead>
<tr>
<th><strong>Right Sector</strong></th>
<th><strong>Positive</strong></th>
<th>Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Neutral</strong></td>
<td>Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies</td>
</tr>
<tr>
<td></td>
<td><strong>Negative</strong></td>
<td>Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Right Quality</strong></th>
<th><strong>Positive</strong></th>
<th>Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Neutral</strong></td>
<td>Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable</td>
</tr>
<tr>
<td></td>
<td><strong>Negative</strong></td>
<td>Weakening growth trend led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Right Valuation</strong></th>
<th><strong>Positive</strong></th>
<th>Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Neutral</strong></td>
<td>Trading at par to historical valuations and having limited scope of expansion in valuation multiples.</td>
</tr>
<tr>
<td></td>
<td><strong>Negative</strong></td>
<td>Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.</td>
</tr>
</tbody>
</table>

*Source: Sharekhan Research*
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